

Message Text

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E. O. 11652: GDS

SUBJECT: ECONOMIC POLICIES

1. CONTINUING ECONOMIC PROBLEMS AND UNREST RAISE MAJOR PROBLEMS FOR U. S. POLICY IN CAMBODIA ON WHICH WE WOULD APPRECIATE MISSION COMMENTS. VIRTUALLY ANY GKR STEP TO IMPROVE DETERIORATING ECONOMIC SITUATION APPEARS CARRY A HIGH POLITICAL COST AND POTENTIALLY THREATENS OUR KEY OBJECTIVE IN CAMBODIA OF KEEPING A UNIFIED NON- COMMUNIST GOVERNMENT IN CONTROL OF AS MANY PEOPLE AND AS MUCH AREA AS POSSIBLE PENDING A CEASE- FIRE. HOWEVER, FAILURE TO ACT ON SEVERAL IMPORTANT ECONOMIC ISSUES WILL LEAD TO ACCELERATING DETERIORATION OF ECONOMY.

2. FROM ECONOMIC STANDPOINT HIGHEST PRIORITY IS TO GET GKR TO HOLD GOVERNMENT EXPENDITURES WITHIN MANAGEABLE BOUNDS - 35 TO 40 BILLION IN 1973, INCLUDING SUBSIDIES AND SUPPLEMENTAL BUDGETS. GKR HAS CONSISTENTLY FAILED TO ACT APPROPRIATELY

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TO MINIMIZE EXPENDITURES AND MAXIMIZE REVENUES. KEY MEASURE IS CONTROL OF MILITARY EXPENDITURES. CONTINUOUS SUPPORT OF "PHANTOM TROOPS" ACCENTUATES SHIFT IN REAL INCOME TO MIDDLE AND UPPER-LEVEL MILITARY FUNCTIONARIES WHILE LINE TROOPS CONTINUE TO COMPLAIN OF LOW AND OFTEN DELAYED PAYROLLS. OUR ATTEMPTS THUS FAR AT SOLVING PHANTOM PROBLEM DIRECTLY HAVE NOT MET WITH SUCCESS. ELIMINATION OF OVERPAYMENTS TO COMMANDERS WOULD REDUCE EXPENDITURES WITHOUT NECESSARILY AFFECTING MILITARY EFFECTIVENESS. REDUCTION OF PAYROLL LEVEL BELOW 250,000 COULD PROVIDE ROOM IN BUDGET FOR WAGE INCREASE WHICH MAY WELL BE NECESSARY. HOWEVER, WE WOULD LIKE YOUR ASSESSMENT OF HOW SERIOUSLY CUTS IN MILITARY OVERPAYMENTS WILL IMPACT ON: (1) MILITARY SUPPORT FOR THE CENTRAL GOVERNMENT AND PARTICULARLY LON NOL; (2) MILITARY EFFECTIVENESS. IN THIS CONNECTION WE WOULD APPRECIATE AN ASSESSMENT OF EXTENT CUTS IN MILITARY BUDGET WILL COME OUT OF COMMANDERS' PROFITS AND EXTENT THEY WILL RESULT IN SLOWER PAYMENT TO SOLDIERS OR REDUCTION IN ACTUAL STRENGTH. WE NOTE FOR EXAMPLE THAT DURING PAST FEW MONTHS WHEN TOTAL PAYROLL WAS EXPANDING VERY FAST THERE HAS BEEN AN INCREASE IN FREQUENCY OF REPORTS THAT TROOPS HAVE NOT BEEN PAID. IS RECRUITMENT CONTINUING FOR MOBILE RESERVES?

3. SECOND KEY BUDGETARY ISSUE IS WAGE LEVELS FOR GOVERNMENT EMPLOYEES. WE WOULD APPRECIATE YOUR ASSESSMENT OF DROP IN REAL WAGES IN GOVERNMENT SECTOR OVER LAST TWO YEARS AND AN ESTIMATE OF THE TIMING AND EXTENT OF NEEDED WAGE INCREASES. WHILE THIS WILL ADD TO UPWARD BUDGET PRESSURES, GOVERNMENT EMPLOYEES CANNOT BE EXPECTED TO BEAR FULL BRUNT OF INFLATION INDEFINITELY. IN ORDER TO ALLOW FOR SUCH SALARY INCREASE, THIS MAY WELL MEAN THAT AUTHORIZED MILITARY PAYROLL SHOULD BE CUT BELOW 253,000. SINCE SOME OF MILITARY ARE BENEFICIARIES OF RECENT INCOME DISTRIBUTION SHIFT WHICH HAS CONTRIBUTED TO POPULAR DISAFFECTION, THEN AN INCREASE IN GOVERNMENT SALARIES NOT REPEAT NOT ACCOMPANIED BY ELIMINATION OF PADDING WOULD ONLY SERVE TO PERPETUATE PROBLEM.

4. THIRD MAJOR ECONOMIC PROBLEM IS RICE PRICES. HEAVY SUBSIDIZATION OF RICE TO CONSUMER IS LIKELY TO RESULT IN INCREASED CONSUMPTION, HOARDING, PROBABLY ILLEGAL EXPORTS TO THAILAND, AND THUS A RICE SHORTAGE LATER THIS YEAR. THERE IS A STRONG CASE FOR INCREASING RICE PRICE TO APPROXI-

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MATELY INTERNATIONAL LEVEL, ABOUT 7 CENTS A POUND, COMPARED

TO PRESENT 4-1/2 CENTS LEVEL. IT IS ALSO OUR IMPRESSION THAT RECENT INCREASES IN RICE DRAWDOWNS MAY BE DIRECT REFLECTION OF BELOW- MARKET PRICE FOR GOVERNMENT RICE. WE WOULD LIKE AN ASSESSMENT OF POLITICAL EFFECTS OF AN INCREASE IN RICE PRICE, EITHER A SHARP ONE- TIME INCREASE OR A GRADUAL RISE, AND OF EFFECTS ON REQUIRED GOVERNMENT AND OTHER WAGE LEVELS.

5. PRICES OF ELECTRICITY, POL, AND OTHER ITEMS ARE FOURTH ECONOMIC PRIORITY. IN SHORT TERM SOMEHOW GKR MUST STRUGGLE THROUGH PRESENT SITUATION ON PRICES AND SUBSIDIES. IT APPEARS TO US IT WOULD BE HIGHLY UNDESIRABLE FOR GKR TO BACK-TRACK COMPLETELY AND CANCEL ALL PRICE INCREASES. IT WOULD BE EVEN MORE UNDESIRABLE FOR GKR TO GET ITSELF INTO IMPOSSIBLE SITUATION OF PROMISING NO PRICE INCREASES IN FUTURE. POLICY OF MINOR RESCISSION OF SOME PRICES BUT ADHERING TO BASIC POLICY LINE LOOKS SENSIBLE. BUT WE DO NOT KNOW FROM HERE HOW FEASIBLE A STANCE THIS IS FOR GOVERNMENT TO MAINTAIN.

6. THE BASIC ECONOMIC POLICY GOAL FOR WHICH WE BELIEVE GKR SHOULD STRIVE IS TO REDUCE 1973 INFLATIONARY PRESSURE BY 30 PERCENT. THAT REPRESENTS A MONETARY GAP OF NOT MORE THAN ROUGHLY SEVEN BILLION. IN ORDER ACHIEVE THIS, FOLLOWING SPECIFIC TARGETS APPEAR CALLED FOR:

A) BUDGET EXPENDITURES AT ACTUAL 1972 LEVEL, ADDING ONLY SALARY INCREASES AUTHORIZED IN 1973, AND SUCH OTHER NECESSARY ADDITIONAL COSTS AS ARE ABSOLUTELY ESSENTIAL. THIS OFFERS THE CHANCE THAT GOVERNMENT EXPENDITURES IN 1973 CAN BE HELD TO 35 BILLION, WHICH AMOUNT SHOULD BE THE EXPENDITURE CEILING TARGET.

B) MILITARY PERSONNEL EXPENDITURES BASED ON NUMBER OF SOLDIERS WHO ARE VERIFIED TO BE IN ACTUAL SERVICE AND NOT ON AUTHORIZED PAYROLL STRENGTH.

C) DOMESTIC REVENUES SHOULD ACHIEVE AT LEAST 30 PERCENT OF EXPENDITURES. (IN 1972 IT APPEARS TO BE 21 PERCENT. IN LAOS IT WAS 31 PERCENT.)

D) CONSIDERABLY HIGHER INTEREST RATES ON TIME DEPOSITS,
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SAY AT LEAST EQUAL TO THE RATE OF MONETARY EXPANSION. IN ORDER TO ENCOURAGE SAV
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